george sparling ltd. annual report 1974

directors

W. W. Adshead
L. J. Brown
J. Bruk
J. S. Donaldson
J. W. Johnson
J. P. Lockington
S. L. Lockington
D. O. Long
J. B. Philley
G. B. Sparling

officers

J. P. Lockington—Chairman of the Board
D. O. Long—President and Chief Executive Officer
L. J. Brown—Vice President
J. S. Donaldson—Vice President
J. W. Johnson—Vice President
J. B. Philley—Vice President
J. W. Bishop—Secretary-Treasurer

Directors

J. P. LOCKINGTON—Honorary Chairman of the Board
W. W. ADSHEAD—Chairman of the Board
J. BRUK
J. W. JOHNSON
S. M. LOCKINGTON
D. O. LONG
B. J. PHILLEY
G. SPARLING

GEORGE SPARLING LTD.
1052 Boundary Road
Burnaby, B.C.

LITHO'D IN CANADA

SPARLINGS

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Long

Report to Shareholders for the Six Months Ended August 31, 1974

GEORGE SPARLING LTD.

To the Shareholders:

On behalf of the Board of Directors we are enclosing the financial results of your company's operations for the six months ended August 31st, 1974.

Total sales for the six months ended August 31st, 1974 amounted to $4,152,717 compared to $3,334,977 for the same period last year; an increase of $817,740 or 24½%. Earnings for the same period decreased from $97,630 in 1973 to $51,570 for the same period in 1974. Although gross margins were increased from 32.8% in 1973 to 34.5% in 1974 as a result of the initiation of management controls late in 1973 and during the first half of this fiscal period the increase was not enough to offset rising payroll costs and financial carrying costs.

It is hoped that in the second half of 1974 and through 1975 your company's campaign to reduce inventories and receivables will assist in raising the profitability of your company and accordingly our earnings per share will be increased in excess of last year's results.

During the first half of the year the company completed its committed moves to new institutional locations at Burnaby, British Columbia and Calgary, Alberta. With the capital expansion programmes approved in 1973 now completed and with no future expansion plans until the economic outlook for the industry shows a more positive direction the company will move in the direction of consolidating its resources, both human and financial, for the future.

Signed on Behalf of the Board
D. O. LONG, Director
W. W. ADSHEAD, Director

October 10th, 1974
Vancouver, B.C.

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GEORGE SPARLING LTD.
and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS
FOR THE SIX MONTHS ENDED AUGUST 31, 1974

	1974 $	1973 $
Sales	4,152,717	3,334,977
Earnings Before Income Taxes	100,025	198,420
Provision for Income Taxes	48,275	100,790
Net Earnings for the Period	51,750	97,630
Ordinary Shares Outstanding	702,479	699,479
Earnings per Ordinary Share	7.4¢	14.0¢
Earnings per Ordinary Share (Fully Diluted — Note 1)	6.3¢	11.9¢

Note 1: The fully diluted earnings per share reflect the potential dilution resulting from the exercise of the conversion privileges on the 8% preferred B shares and the exercise of outstanding stock options.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL
FOR THE SIX MONTHS ENDED AUGUST 31, 1974

	1974 $	1973 $
Source:		
Current Operations	78,750	114,830
Use:		
Fixed asset additions — net	114,794	26,965
Prior period adjustment of income taxes		4,586
Dividends		17,405
	114,794	48,956
(Decrease) Increase in working capital	(36,044	65,874
	78,750	114,830

GEORGE SPARLING LTD.
and subsidiary companies

index

head office

120 West 4th Avenue
Vancouver, B.C.

executive office

Suite 208, 6205 Airport Road
Mississauga, Ontario

auditors

Ernst & Ernst, Vancouver, B.C.

registrar and transfer agent

Canada Trust Co., Vancouver, B.C.

solicitors

Lawrence & Shaw, Vancouver, B.C.

bankers

Canadian Imperial Bank of Commerce

annual meeting

2 p.m. Monday, July 15, 1974
Connaught Room, Georgia Hotel
Vancouver, B.C.

DIRECTORS' REPORT

Net earnings for the year ended February 28, 1974 amounted to $63,391 compared to $242,405 for the same period of the previous year. Earnings per Common Share for the year amounted to 9.0c compared to 32.3c in 1973.

Consolidated sales for the fiscal year under review amounted to $7,389,438, an increase of 17.8% over 1973 sales of $6,274,393.

The increase in sales and decrease in earnings occurred in the Sparling Division, whereas all other operating divisions showed increased sales and earnings.

The increase in sales and earnings in Eastern Canada were due to the expansion of the Company into the retailing of, manufacturing of, and the wholesale distribution of sporting goods, as well as continued profitable results in its Eastern Institutional Sales Division, Lockington Sports Limited. During the year the Company opened its first Eastern retail outlet at Mississauga, Ontario, and acquired the business of John Lockington Sports of Brantford, Ontario as of March 1, 1974 for its second retail outlet in Ontario. Both retail outlets will operate under the Lockington Sports name.

Although sales for the year increased throughout the Company's Sparling Division in Western Canada as the demand for sporting goods continued its upward climb, earnings were adversely affected. The major decline was due to major cost increases for products, increased payroll costs, and higher charges for other services which could not effectively be passed along in higher selling prices due to severe competitive pressure in the retail sector of this Division's traditional market.

While every effort is being made by the directors to improve the Company's position through increased profits, a continuing review of costs is also being made and a number of cost reduction programs were put into effect during the past year, which the Company should benefit from in the next fiscal period, as well as others initiated for the 1974/75 fiscal year. To this end the Mississauga Institutional centre of Lockington Sports was closed at the end of the fiscal year. Distribution for this centre has been transferred to the Company's more efficient centre at

Brantford. Accordingly, only necessary renovations and committed relocations will be carried out in the next fiscal year with new outlets at the planning stage being deferred until subsequent periods.

Although the Corporate management group was reorganized during the year, additional major changes were also made at the Company's Sparling Division which serves the Western Canada market. Particularly, the Premier Division serving the Alberta and Saskatchewan market was merged with the Sparling Division in British Columbia under the direction of Vice-President, Brian Philley. These combined Divisions have recently been restructured at the management level and many necessary cost control programs have been initiated and currently are being installed.

In addition to the foregoing, our Management has reassessed its traditional marketing roles and is presently planning to initiate changes which are obviously necessary in the changing market place of our industry here in Canada. We will, of course, disclose these plans to shareholders as they are made, but at present we cannot divulge such plans in order to avoid prejudicing their outcome.

The outlook for sporting goods growth in Canada is most favorable and your Directors are optimistic that with the changes that have been made to date and additional programs to be initiated in 1974-75, along with the control minded and profit conscious attitude of management, profits will show an upswing in our next fiscal period.

In view of the problems being faced to reinstate our profit position for the corporation and its shareholders your Board regretfully has decided to continue the policy of no dividend payments, and no common share dividend payments will be instituted until the Company achieves a reasonable profit picture.

On behalf of the Directors I wish to thank the shareholders for their continued support and to express appreciation to the Company's employees for their loyal and conscientious efforts during the year.

Douglas O Long

DOUGLAS O. LONG, C.A.
President and Chief
Executive Officer

consolidated balance sheet

of **GEORGE SPARLING LTD.** and subsidiary companies
As at February 28, 1974

ASSETS	1974	1973
CURRENT ASSETS	**$**	$
Cash		36,105
Accounts receivable	**850,236**	613,221
Merchandise, at the lower of cost and net realizable value	**2,323,935**	1,793,105
Prepaid expenses	**25,677**	11,072
	3,199,848	2,453,503
FIXED ASSETS at cost less accumulated depreciation (1974—$191,709; 1973—$153,408) (note 4)	**224,605**	162,223
GOODWILL at cost (notes 1 and 3)	**711,922**	711,922
	4,136,375	3,327,648
LIABILITIES		
CURRENT LIABILITIES		
Bank advances (note 2)	**1,364,270**	741,945
Accounts payable and accruals	**722,032**	403,943
Income taxes payable (recoverable)	**(140,576)**	41,282
	1,945,726	1,187,170
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 3)	**833,795**	829,610
CONTRIBUTED SURPLUS (note 3)	**226,874**	226,874
RETAINED EARNINGS	**1,129,980**	1,083,994
	2,190,649	2,140,478
	4,136,375	3,327,648

SIGNED ON BEHALF OF THE BOARD

D. O. LONG, *Director*

W. W. ADSHEAD, *Director*

statement of consolidated earnings and retained earnings

of **GEORGE SPARLING LTD.** and subsidiary companies
As at February 28, 1974

	1974	1973
	$	$
SALES	**7,389,438**	6,274,393
COST OF SALES	**5,103,735**	4,113,323
GROSS PROFIT	**2,285,703**	2,161,070
EXPENSES, including depreciation (1974—$48,889; 1973—$37,146)	**2, 156,012**	1,702,252
EARNINGS FROM OPERATIONS	**129,691**	458,818
PROVISION FOR INCOME TAXES	**66,300**	216,413
NET EARNINGS FOR THE YEAR (note 6)	**63,391**	242,405
RETAINED EARNINGS—begininng of year	**1,083,994**	876,864
	1,147,385	1,119,269
DIVIDENDS—preferred A shares		1,675
preferred B shares	**17,405**	33,600
	17,405	35,275
RETAINED EARNINGS—end of year	**1,129,980**	1,083,994

AUDITORS' REPORT

To the Shareholders of
George Sparling Ltd.

We have examined the consolidated balance sheet of George Sparling Ltd. and subsidiary companies at February 28, 1974 and the consolidated statements of earnings and retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at February 28, 1974 and the results of their operations and the source and use of their working capital for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
May 30, 1974

ERNST & ERNST
Chartered Accountants

statement of consolidated source and use of working capital

of **GEORGE SPARLING LTD.** and subsidiary companies
As at February 28, 1974

	1974	1973
SOURCE	$	$
NET EARNINGS FOR THE YEAR	**63,391**	242,405
Add: Items not a source of working capital		
Depreciation	**48,889**	37,146
Loss on disposal of fixed assets	**3,583**	
	115,863	279,551
Capital stock	**4,185**	
	120,048	279,551
USE		
Fixed asset additions—net	**114,854**	53,958
Redemption of capital stock		6,016
Dividends	**17,405**	35,275
	132,259	95,249
INCREASE (DECREASE) IN WORKING CAPITAL	**(12,211)**	184,302
WORKING CAPITAL—beginning of year	**1,266,333**	1,082,031
WORKING CAPITAL—end of year	**1,254,122**	1,266,333
REPRESENTED BY:		
Current Assets	**3,199,848**	2,453,503
Current Liabilities	**1,945,726**	1,187,170
WORKING CAPITAL—end of year	**1,254,122**	1,266,333

notes to consolidated financial statements

of **GEORGE SPARLING LTD.** and subsidiary companies
As at February 28, 1974

1. ACCOUNTING POLICIES
The following summary of major accounting policies is presented to assist in the interpretation of the financial statements.

Principles of consolidation
The financial statements include the accounts of the company and all subsidiaries. All material intercompany transactions are eliminated. The subsidiary companies are:

Alberta —Premier Sports (Calgary) Ltd.
British Columbia —B.C. Sport Mart Ltd.
Ontario —Jayson Metal Fabrications Limited; Lockington Sports Limited; Saxonwear Canada Limited; Phillips House Limited.

Goodwill at cost
Goodwill represents the excess of attributed cost of shares of subsidiary companies over book value of net assets at date of acquisition. This excess is not being amortized since in the opinion of management there has been no diminution of value since acquisition.

notes to consolidated financial statements (cont.)

of **GEORGE SPARLING LTD.** and subsidiary companies
As at February 28, 1974

Depreciation
Depreciation rates are established to amortize original cost over the useful life of each asset. Depreciation is computed on the diminishing balance method.
All material profits or losses on the disposal of plant and equipment are included in earnings when they are realized, and the carrying value of such assets is removed from the accounts.

Merchandise
Merchandise inventories are stated at the lower of cost and net realizable value with cost being determined on a first in, first out basis.

2. BANK ADVANCES
The bank advances are secured by all assets of the Company and its subsidiaries as evidenced by a demand debenture in the amount of $1,000,000.

3. CAPITAL STOCK
Authorized—
75,000—10% cumulative, redeemable, convertible, preferred A shares without nominal or par value
420,000—8% redeemable, exchangeable, preferred B shares without nominal or par value
1,000,000—ordinary shares without nominal or par value

	Shares	Gross $	Contributed Surplus $	Net $
Issued and fully paid—				
8% preferred B shares				
Balance—beginning and end of year	413,984	413,984		413,984
Ordinary shares				
Balance—beginning of year	699,479	642,500	226,874	415,626
Issued during year	3,000	4,185		4,185
Balance—end of year	702,479	646,685	226,874	419,811
TOTAL	1,116,463	1,060,669	226,874	833,795

Contributed surplus arose on the issuance of ordinary shares for net assets of a subsidiary company. The value placed upon the ordinary shares at date of acquisition of the subsidiary company was $3.66 with $2.00 of this amount being credited to capital stock and the excess being credited to contributed surplus.
The preferred B shares are redeemable at any time at the Company's option at $1.00 per share and are convertible, at the option of the holder, for ordinary shares on the basis of 3½ preferred B shares for each ordinary share. The payment of the full 8% annual dividend is conditional upon the Companies obtaining certain minimum consolidated net earnings and working capital levels. Subject to these same levels, the Company is required to redeem the preferred B shares annually to a maximum amount of $35,000 per annum. Based on the consolidated financial statements for the year ended February 28, 1974, the Company is not required to redeem any of these shares nor pay a dividend.
At February 28, 1974 the Company reserved 35,124 ordinary shares for issue under employee's stock option plans. Under these plans options to purchase a total of 35,000 ordinary shares from treasury were outstanding, exercisable at prices from $1.17 to $2.50 per share.

4. LONG-TERM LEASING
At February 28, 1974, virtually all of the premises utilized by the Company and its subsidiaries were occupied under long-term leases requiring minimum annual payments of $171,800 for periods extending up to ten years. Total rentals paid in the fiscal year ended February 28, 1974, on premises under long-term lease amounted to $174,355 including $45,911 under percentage of sales clauses.
At February 28, 1974, the Company had entered into lease arrangements for a new retail outlet in Ontario and the relocation of the British Columbia and Alberta warehouses. These leases will require increased minimum annual payments of $74,100 for periods extending up to ten years.

5. EXECUTIVE REMUNERATION
The aggregate direct remuneration to the directors and senior officers amounted to $142,792.

6. EARNINGS PER ORDINARY SHARE

Basic:	1974	1973
Net earnings	9.0c	32.3c

The earnings per ordinary share figures are calculated using the weighted monthly average number of ordinary shares outstanding during their respective fiscal years.

Fully Diluted:	1974	1973
Net earnings	7.7c	29.7c

Fully diluted earnings per ordinary share are calculated to show the effect on earnings per ordinary share which would result if all the 8% preferred B shares had been converted into ordinary shares at the beginning of the year and if the outstanding stock options had been fully exercised at the dates of the option agreements.

new developments

1052 Boundary Road, Burnaby.
New Head Office, Warehouse, and Institutional Sales Building at Vancouver/Burnaby, B.C.

#12 - 700 58th Ave., S.E.
Calgary, Alberta
Showroom and Sales
Display at New Institutional Division

Lockington Retail Store
at Square I Shopping Center
Mississauga, Ontario

GEORGE SPARLING LTD.
and subsidiary companies

LOCKINGTON SPORTS LIMITED
SPARLING SPORTING GOODS LTD.
(FORMERLY PREMIER SPORTS (CALGARY) LTD.)
B.C. SPORT MART LTD.
JAYSON METAL FABRICATIONS LIMITED
SAXONWEAR CANADA LIMITED
PHILLIPS HOUSE LIMITED

OPERATION LOCATIONS

VANCOUVER/BURNABY, B.C.—
HEAD OFFICE, WAREHOUSE AND INSTITUTIONAL SALES

VICTORIA, B.C.—WAREHOUSE AND INSTITUTIONAL SALES, SPARLINGS

CALGARY, ALTA.—WAREHOUSE AND INSITUTIONAL SALES, SPARLINGS

BRANTFORD, ONT.—WAREHOUSE AND INSTITUTIONAL SALES,
LOCKINGTON SPORTS LIMITED

RETAIL

VANCOUVER—SPARLINGS, GRANVILLE STREET
SPARLINGS, PARK ROYAL
SPARLINGS, GUILDFORD

PRINCE GEORGE—SPARLINGS

TRAIL—SPARLINGS

KAMLOOPS—SPARLINGS

CALGARY—SPARLINGS

MISSISSAUGA—LOCKINGTONS, SQUARE I
BRANTFORD—LOCKINGTONS, MARKET STREET

SALES PERSONNEL

BOUNDARY ROAD INTITUTIONAL SALES FOR B.C.—
MANAGER, LORNE CULLEN

B.C. RETAIL SALES—MANAGER, BILL NICOL

GRANVILLE RETAIL STORE—MANAGER, DENNIS FERREY

PARK ROYAL RETAIL STORE—MANAGER, PETER KEYMER

GUILDFORD RETAIL STORE—MANAGER, JACK JOHNSTON

PRINCE GEORGE RETAIL STORE—MANAGER, GORDON CRUICKSHANK

TRAIL RETAIL STORE—MANAGER, PAT FRIE

VICTORIA INSTITUTIONAL SALES—MANAGER, DON PIMLOTT

CALGARY INSTITUTIONAL SALES (ALTA. & SASK.)—MANAGER, G. SMITH

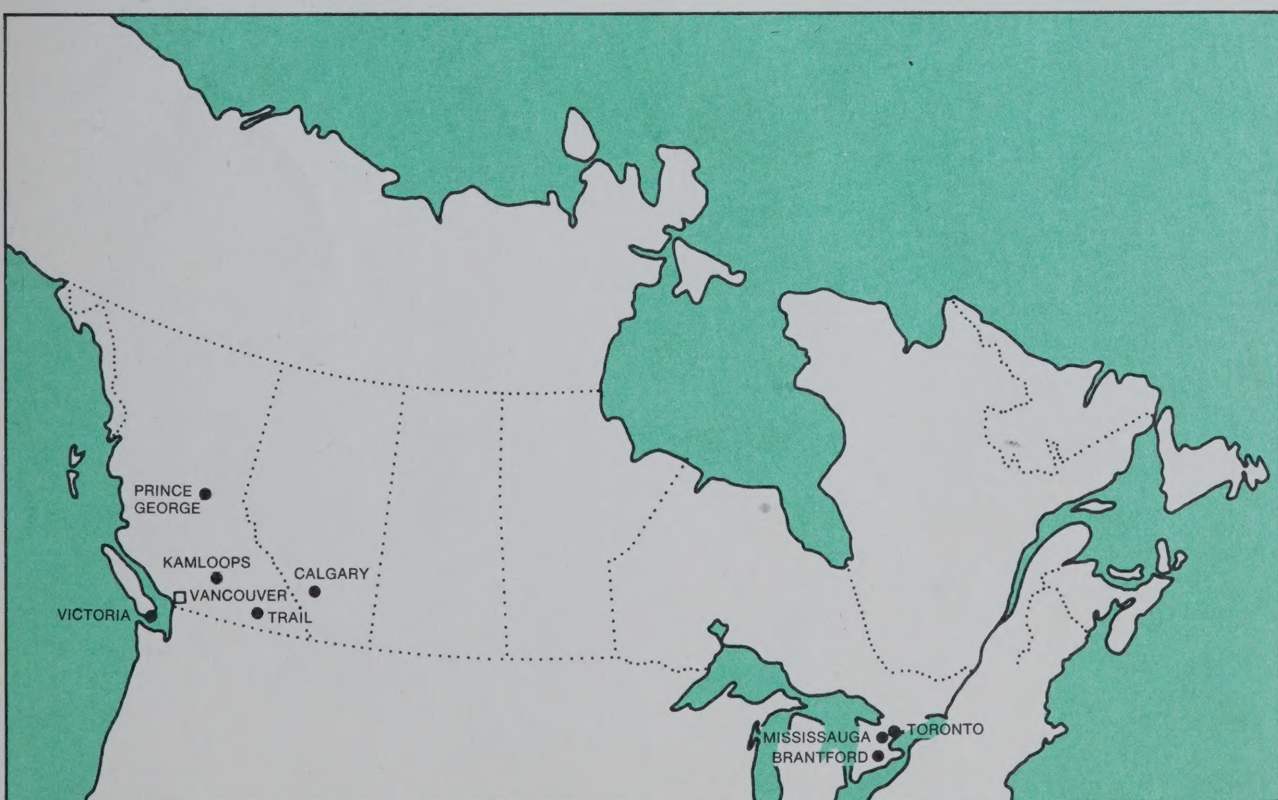
CALGARY RETAIL STORE—MANAGER, GORD WOODS

EASTERN CANADA SALES—MANAGER, JIM DETLOR

BRANTFORD INSTITUTIONAL SALES (MAN., ONT., & QUE.)—
MANAGER, ALLAN BAKER

BRANTFORD RETAIL STORE—MANAGER, GERRY DALLAWAY

MISSISSAUGA RETAIL STORE—MANAGER, CONNIE DI FRUSCIA



LITHO'D IN CANADA